920

Allowances

The President's budget and the Congressional budget resolution sometimes include amounts in function 920 to reflect proposals that are not clearly specified or that would affect multiple budget functions. Since the Congress actually appropriates money for specific purposes, there are no budget authority or outlay totals for function 920 in historical data. In this volume, function 920 includes options that cut across programs and agencies and would affect multiple budget functions.

920-01—Mandatory

Charge Federal Employees Commercial Rates for Parking

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Added Receipts	140	140	140	150	150	720	1,540

The federal government owns or leases more than 200,000 parking spaces, which it allocates to its employees—in most cases at no charge. Requiring federal government employees to pay commercial rates for their parking could yield receipts of $140 million in 2004 and $720 million over five years.

Federal workers in the largest metropolitan areas would bear most of the new charges. Those in the Washington, D.C., area would pay about 75 percent of the total charge. (Federal employees in less commercially developed areas, where charging for parking is uncommon, would not face new parking fees.) Employees who continued to use federally owned or managed parking would, on average, pay about $130 per month; employees who currently use free or heavily subsidized parking could choose alternative means of transportation, such as public transit or carpooling, to avoid the charge.

Supporters of this option favor charging commercial rates for parking because it would encourage federal employees to use public transportation or to carpool. That shift would reduce the flow of cars into urban areas, cutting down on energy consumption, air pollution, and congestion. In addition, commercial pricing would indicate the demand for parking by federal workers more accurately, enabling the government to allocate spaces to those who valued them the most. Moreover, if commercial rates reduced the demand for spaces sufficiently, the government might be able to put the unused spaces to new, higher-valued uses. Finally, some supporters argue that the federal government should not provide a valuable commodity, such as parking, free to workers who could afford to pay for it.

Opponents of this option argue that by charging for parking, the government would unfairly penalize workers in urban areas who have difficulty obtaining access to alternative transportation or who drive to work for valid personal reasons. Charging for parking would also reduce federal employees' total compensation. In addition, opponents note that many private-sector employers provide free parking. Some people have also argued that charging commercial rates would merely redistribute the existing parking spaces without reducing the number of people who drive to work. According to that view, the spaces would simply be allocated by willingness to pay rather than by rank, seniority, or other factors.

RELATED CBO PUBLICATION: *Comparing Federal Employee Benefits with Those in the Private Sector*, August 1998

920-02—Discretionary

Raise the Threshold for Coverage Under the Davis-Bacon Act

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	130	135	140	140	145	690	1,465
Outlays	50	125	170	195	210	750	1,900

Since 1935, the Davis-Bacon Act has required that "prevailing wages" be paid on all federally funded or federally assisted construction projects with contracts of $2,000 or more. The Department of Labor measures prevailing wages in an area according to the specific wages and benefits earned by at least 50 percent of workers in a particular type of job or the average of the wages and benefits paid to workers in that type of job. Those procedures, as well as the classifications of workers who receive prevailing wages, favor union wage rates in some cases.

In recent years, several bills have been introduced in the Congress that would raise the threshold for determining which projects are covered by the Davis-Bacon Act. This option would increase the threshold from $2,000 to $1 million. That change would save $50 million in discretionary outlays in 2004 and $750 million over the 2004-2008 period—provided that federal agencies' appropriations were lowered to reflect the anticipated reduction in costs. (The higher threshold would also save $1 million in mandatory spending in 2004 and $10 million over the five-year period.) In addition, it would reduce firms' and the government's administrative burden by restricting coverage to the largest contracts.

Supporters of this option argue that the threshold has remained the same for more than 65 years and that raising it would allow the federal government to spend less on construction. Moreover, this option could potentially increase the opportunities for employment that federal projects would offer to less-skilled workers.

Opponents of such a change note that it would lower the earnings of some construction workers. In addition, opponents argue that raising the threshold could jeopardize the quality of federally funded or federally assisted construction projects. They contend that since firms are required to pay at least the locally prevailing wage, firms are more likely to hire able workers, resulting in fewer defects in the finished projects and more timely completion.

920-03—Mandatory

Impose a Fee on the Investment Portfolios of Government-Sponsored Enterprises

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Added Receipts	1,480	1,554	1,631	1,713	1,798	8,175	18,610

Government-sponsored enterprises (GSEs) are private financial institutions chartered by the federal government to promote the flow of credit to targeted uses, primarily housing and agriculture. GSEs achieve their public purpose by raising funds in the capital markets on the strength of an implied federal guarantee and lending or otherwise conveying monies to retail lenders. Investors infer a federal guarantee of GSE obligations from provisions in the GSEs' charters, such as those that exempt the enterprises from state and local income taxes, render GSE securities eligible to serve as collateral for federal and other public deposits, and authorize the Secretary of the Treasury to purchase debt securities issued by the enterprises. The implicit federal guarantee—for which the federal government now collects no fee—lowers the cost of borrowing for the GSEs and conveys a subsidy that gives them a competitive advantage in financial markets.

Four GSEs—Fannie Mae, Freddie Mac, Farmer Mac, and the Federal Home Loan Banks—have used their privileged borrowing to acquire and hold large portfolios of securities. Those investments consist mostly of mortgage-backed securities but also include other asset-backed securities, corporate bonds, and mortgage revenue bonds. At the end of 2002, the investment portfolios of those four enterprises totaled $2 trillion, or 75 percent of their combined assets. The GSEs earn profits from the difference in yields on their investments and on their subsidized debt issues. Those profits, which owe much to the federal guarantee, accrue to shareholders and other GSE stakeholders.

This option would impose a fee of 10 basis points (10 cents per $100 of investments) on GSEs' investment portfolios. That change would provide the federal government with nearly $1.5 billion in added receipts in 2004 and $8.2 billion over five years. Those proceeds from the fee would equal about one-third of the federal subsidy estimated to be retained by equity investors and other stakeholders of the housing GSEs.

Proponents of imposing the fee could argue that doing so would promote competition in financial markets and recover some of the federal subsidy retained by the GSEs without reducing their capacity to achieve their public mission. For example, the fee would not restrict the housing GSEs' authority to guarantee mortgage-backed securities or prevent them from purchasing those securities, nor would it hamper the ability of the Home Loan Banks to make advances to members.

Opponents of this option might argue that the GSEs either do not receive a government subsidy or that they pass all of it through to targeted borrowers and, hence, should not be subject to a fee.

RELATED CBO PUBLICATIONS: *Letter to the Honorable Paul S. Sarbanes regarding the new-business assumption in the risk-based capital rule for Fannie Mae and Freddie Mac*, January 3, 2003; *Federal Subsidies and the Housing GSEs*, May 2001; *Assessing the Public Costs and Benefits of Fannie Mae and Freddie Mac*, May 1996; *The Federal Home Loan Banks in the Housing Finance System*, July 1993; and *Controlling the Risks of Government-Sponsored Enterprises*, April 1991

920-04—Discretionary

Eliminate Cargo Preference

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	288	370	456	464	473	2,051	4,548
Outlays	243	347	434	458	469	1,950	4,431

The Cargo Preference Act of 1904 and other laws require that U.S.-flag vessels be used to carry certain government-owned or government-financed cargo that is shipped internationally. Eliminating that "cargo preference" would lower federal transportation costs by allowing the government to ship its cargo at the lowest available rates —saving $243 million in outlays in 2004 and nearly $2 billion over five years.

Two federal agencies—the Department of Defense (DoD) and the Department of Agriculture (USDA)—account for about 90 percent (by weight) of the government shipments subject to cargo preference laws. The preference applies to nearly all of DoD's freight and three-quarters of USDA's shipments of food aid, as well as shipments associated with programs of the Agency for International Development and the Export-Import Bank. Roughly 66 percent of the savings from eliminating cargo preference would come from defense discretionary spending, with the other 34 percent from nondefense discretionary spending.

Supporters of this option contend that cargo preference represents a subsidy of private vessels by taxpayers, which helps a handful of carriers preserve their market share and market power. Proponents also point out that DoD officials question the national security importance of the cargo preferences. DoD has invested in a fleet of its own specifically for transporting military equipment. It also contracts with foreign-flag ships when needed. In addition, this option's advocates argue that the U.S. government is at a competitive disadvantage in selling surplus agricultural commodities abroad because it must pay higher costs to transport them.

Opponents of this option argue that cargo preference promotes the economic viability of the nation's maritime industry. That industry has suffered from foreign competition in recent decades. Under federal law, U.S. mariners must crew U.S. vessels, and in general, U.S. shipyards must build them. Because U.S.-flag ships face higher labor costs and greater regulatory responsibilities than foreign-flag ships, they generally charge higher rates. Without guaranteed business from cargo preference, opponents contend, many U.S.-flag vessels engaged in international trade would leave the fleet. They would do so either by reflagging in a foreign country to save money or by decommissioning if they could not operate competitively. This option's opponents also argue that cargo preference helps bolster national security by ensuring that U.S.-flag vessels and U.S. crews are available during wartime. Finally, eliminating cargo preference could cause U.S. ship operators and shipbuilders to default on loans guaranteed by the government. (The possibility of such defaults is not reflected in the estimated savings from this option.)